

July 31, 1998

## Senate Action on Agriculture Issues in the 105<sup>th</sup> Congress: On the Right Track

Recent financial hardships facing America's farm families — caused by a wide range of factors — have focused Congressional attention on the 1996 Freedom to Farm Act and the effects that current farm policy and USDA action are having on the heartland. Clearly, some farmers are in serious trouble, especially in the Northern Plains. That is why Republican Senators have taken a number of positive steps to address the needs of farm families without going back on the promises Congress made to rural America in Freedom to Farm.

On June 18, 1998, a group of 14 Republican Senators — led by Senators Burns, Roberts, Lugar, and Lott — from different regions met with the leadership of most major national farm organizations to discuss the economic problems of producers and solutions. At the meeting were representatives of the American Farm Bureau Federation, the American Soybean Association, the National Association of Wheat Growers, the National Barley Growers Association, the National Corn Growers Association, the National Cotton Council of America, the National Grange, the National Grain Sorghum Producers Association, the National Oil Seed Processors Association, the National Pork Producers, the National Sunflower Association, and the U.S. Canola Association.

The message these national farm organizations delivered to the Senate was that *agricultural producers across the nation support Freedom to Farm*. These groups emphasized the answer to today's problems was *not* to rewrite the farm program and return to the old command-and-control agriculture policy of the past, but to build upon the flexibility of Freedom to Farm, and regain market share and exports. As farmers successfully make the transition from government-controlled farming to the free market and can better position themselves in world markets, we can expect greater gains.

Farmers are shifting to crop mixes that make economic sense. And while opponents argue that prices have fallen because producers are now planting "fence-row to fence-row," the most recent USDA plantings report shows that estimated planted acres for 1998 have fallen from the level in 1997. Farmers are responding to the market by reducing production. [For details on how the 1996 Freedom to Farm Bill is serving its purpose, see RPC paper, "FAIR Act: The Best Way to Enter the New Century," 7/14/98.]

The FAIR Act is a source of help, not harm for farm income. For 1996-98, the "freedom to farm" payments under the FAIR Act will total \$17.18 billion. Had the 1990 farm bill remained in effect, that program's deficiency payments, which vary depending on market

prices, would have been only \$9.63 billion over the same period. In other words, under the old farm policies the federal government would have provided \$7.55 billion *less* in support for American farmers' incomes.

Working together, farmers and Republican Senators developed a positive agenda of items consistent with Freedom to Farm that Republican Senators have been working to implement since the meeting. These efforts have focused in three distinct areas: trade, tax relief, and disaster assistance.

## **GOP Jump-Starts U.S. Trade Policy**

In recent years, almost 40 percent of the food grown in the United States has been for export. However, as the economic troubles of most major Asian countries grew and their imports of agricultural commodities shrank accordingly, U.S. exports to this important market shrank. Combined with growing world-wide supply of basic commodities such as wheat and corn, the so-called "Asian flu" financial crisis lies at the heart of the current slump in farm prices.

Accordingly, Republican Senators proposed — and continue to pursue — an across-the-board effort to jump-start U.S. trade policy and urged the Administration to put to use the export tools provided under current law. Republican-led efforts on the trade front have included:

- **Reform and Full Funding for the International Monetary Fund (IMF):** The Senate has included full funding for the International Monetary fund (IMF) in the fiscal year 1999 Foreign Operations Appropriations (on the Senate Calendar). The funding consists of \$3.36 billion for the New Arrangements to Borrow and a quota increase of \$14.5 billion. The Senate previously approved full funding for the IMF, but was unable to reach agreement with the House. A House vote on the IMF is likely in September.
- **Reform of Unilateral Sanctions:** In late June, Majority Leader Trent Lott named 18 Senators to a bipartisan Sanctions Task Force. The task force is to report back to Senate leadership by September 1, 1998 on the following issues: 1) What constitutes a sanction? 2) What sanctions are now in place? 3) How should success be assessed in determining the effectiveness of these sanctions? 4) How should policy goals be defined in considering and implementing these sanctions? The task force recommendations will be the basis for possible legislative initiatives addressing sanctions.

**Initial Success:** The sanctions task force was also asked to examine recently imposed sanctions on Pakistan and India. The task force sought and received immediate Senate consideration of legislation that would restore USDA export credit guarantees to Pakistan and India. The legislation became law on July 15, in time for a 500,000 metric ton Pakistani wheat tender. The United States will supply 300,000 metric tons of this tender.

- **Use of the CCC to Provide Humanitarian Assistance to Countries Suffering from Hunger and Malnutrition:** On July 14, Republican members of the Senate Agriculture Committee sent a letter to Secretary of Agriculture Dan Glickman suggesting that USDA utilize unspent Export Enhancement Program (EEP) funds to create a Food Assistance and

Market Development (FAMD) program. Under this new program, USDA would purchase U.S. agricultural commodities at prevailing market prices for concessional sales to foreign buyers. The letter suggests that priority in FAMD be given to markets experiencing a temporary need for food aid because of macroeconomic or other problems, but likely to resume commercial purchases in the future.

After receiving this letter, USDA announced that it would purchase up to 80 million bushels of wheat worth approximately \$250 million. The wheat will be donated to countries such as Indonesia and Sudan, which have tremendous humanitarian needs. Moving forward with the initiative suggested by the Republican members of the Senate Agriculture Committee would serve to complement USDA's donation program.

- **Insist that Agriculture Receive Priority Consideration in the Next Round of World Trade Organization (WTO) Negotiation:** During hearings before the Senate Agriculture Committee, Senators sought assurance from the U.S. Trade Representative and Secretary of Agriculture that agriculture would receive priority consideration during the next round of World Trade Organization (WTO) negotiations.

Agriculture is the most protected industry in most foreign countries. This year, USDA estimates that U.S. farmers and ranchers will export \$56 billion worth of agricultural commodities. To maintain and increase farm income, we must expand exports and improve our market share. Senate Republicans support efforts to pursue trade negotiations that continue to knock down tariff and non-tariff barriers.

### ***President Asking for Fast Track Trade Authority***

The effort to revive fast track negotiating authority is favored by many Republicans as a means to bolster export of farm products. This authority would allow for expeditious consideration by Congress of any new, proposed trade agreement, without amendment. Previous Congresses have seen trade as crucial to a strong American economy and new, better-paying jobs for American workers. As a result, every President since Gerald Ford has been given fast track authority, often by a Congress of the opposition party.

U.S. agriculture, services, and manufacturing industries would all receive tremendous benefits from the creation of new markets for their products. President Clinton himself called on Congress to pass fast track legislation during this year's State of the Union Address, and many Congressional Republicans agree with him. If Congressional Democrats want to deny a Democratic President's urgent request for fast track authority in order to defend special interests and organized labor, the responsibility should lie with them — and with a President who now would rather give up on fast track than make his fellow Democrats uncomfortable by asking them to vote for it.

## **Tax Relief: Helping Families, Farmers and the Economy**

### **The FIRST Act**

Equally important to Republicans is the real need to provide real tax relief for hard working farm families. That is why several Republican Senators (including the Majority Leader) have introduced the Family Investment and Rural Savings Tax (FIRST) Act of 1998 and will push for expeditious consideration. The FIRST Act would target tax relief to stabilize farm income, promote saving and investment by individuals and families, and boost the economy. The three-part bill includes:

- **The Lott-Gingrich Economic Growth Act of 1998.** The bill would: Reduce the top individual capital gains tax rate from 20 percent to 15 percent; reduce the capital gains tax rate for individuals with lower incomes from 10 percent to 7.5 percent; and simplify the tax rate by eliminating three current law exceptions: Real estate depreciation recapture (currently taxed at a 25 percent rate), collectibles (currently taxed at a 28 percent rate), and gains from certain business stocks (currently taxed at a 28 percent rate). Effective date: Wednesday, June 24, 1998.
- **Farm and Ranch Risk Management Act (FARRM) Savings Accounts.** The bill would leave business decisions in the hands of farmers, not the government. Farmers could decide whether to defer income in new FARRM savings accounts and when to withdraw funds to supplement operation. Eligible farmers could make contributions to tax deferred accounts. These contributions would be tax deductible and limited to 20 percent of a farmer's taxable income for that year. Funds could remain in the account for up to five years.
- **Permanent Extension of Income Averaging for Farmers.** The bill would restore for farmers the three-year income averaging stripped from the tax code in the 1986 tax bill in a reaction to perceived abuse of the provision by non-farming groups. This provision protects farmers from the unintended tax consequences that result from the large fluctuations unique to, but also common to the agricultural economy. Farmers have little or no control over wide swings in their income or losses caused by drought, weather changes, unpredictable changes in foreign economies, government regulation (often with unique impacts on agriculture), and other factors.

Most importantly, FIRST will give American farmers and ranchers the freedom to manage their own income and the opportunity to make their own business decisions, instead of the government.

### **AgJOBS**

On July 23, Senate Republicans passed a new program to match unemployed Americans with agricultural jobs and, in cases where a labor shortage persists, to expedite the approval of hiring of legal, temporary, guest workers.

American farmers want and need a reliable source of legal workers. Currently, agriculture employers are faced with an unwinnable dilemma: question "too diligently" the authenticity of an increasing incidence of fraudulent work papers and risk expensive government discrimination penalties, or hire willing but potentially illegal workers and risk being fined or shut down by INS. Indeed, in the words of Senator Gordon Smith, current law "makes fugitives out of farm workers and felons out of farmers."

AgJOBS would enhance existing Department of Labor job banks and, for the first time, guarantee a referred worker's legal status. A farmer participating voluntarily in the AgJOBS Registry would be required to hire all available American workers first. If there was still a labor shortage, the farmer then would be approved to hire legal, documented, temporary guest workers under an expedited visa process. Registry and guest workers both would receive prevailing wages (plus a possible 5-percent premium for the lowest-paying jobs), housing or a housing allowance, and reimbursement for transportation for distances greater than 100 miles.

## **Disaster Assistance for Farmers**

With the Asian financial crisis and adverse weather conditions exacting a heavy toll on American farmers and ranchers, Republicans proposed to make \$5.5 billion available as soon as October 1 to help farmers cope with the cash shortage they are now experiencing due to low prices. The Emergency Farm Financial Relief Act, introduced by Senator Coverdell, would give farmers the option of receiving all of the Agriculture Market Transition Act contract payments for FY 1999 earlier than allowed under the normal schedule. Annual payments can now be made twice a year, in December or January and again in September.

## **On the Right Track to the 21<sup>st</sup> Century**

The future of farm profitability lies with expanding overseas markets, not with congressional tinkering with the farm bill and a return to the failed policies of the past that for decades undermined the long-term interests of American agriculture. We must retain the flexibility of Freedom to Farm, and regain market share and exports. Republicans from agriculture states and national farm organizations have been working together to jump-start U.S. trade policy and have urged the Clinton Administration to utilize all of the export tools provided in current law and within the new farm program.

To date, the Senate has passed legislation removing the sanctions on agriculture products imposed on India and Pakistan and has approved funds for the IMF. Republican Leader Trent Lott has appointed a Sanctions Reform Task Force to report September 1, 1998. Senate Agriculture Committee Chairman Lugar has proposed comprehensive sanctions reform legislation. Both Senate and House Republican Leaders have stated that they will take up Fast Track legislation in September. The Republican leadership of the Senate and Republicans from agriculture states are committed to continue efforts to keep U.S. agriculture products moving to overseas markets.

Finally, to assist farmers into the 21<sup>st</sup> Century, Republicans crafted the new agricultural research law. The law marks the first major overhaul of agricultural research programs in over 20

years. It modernizes agricultural research programs to help American farmers maintain their competitive edge and meet the challenges of the global marketplace, and provides \$600 million over five years in new funding for agricultural research. It also preserves crop insurance for U.S. farmers.

As our farmers provide for the vital needs of America and much of the world, Republicans in Congress are working to help farmers in their time of need — on trade, on taxes, and in disaster assistance. Moreover, the Congressional GOP is moving ahead with forward-looking farm programs for the next century.

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Staff Contact: Judy Myers, 224-2946